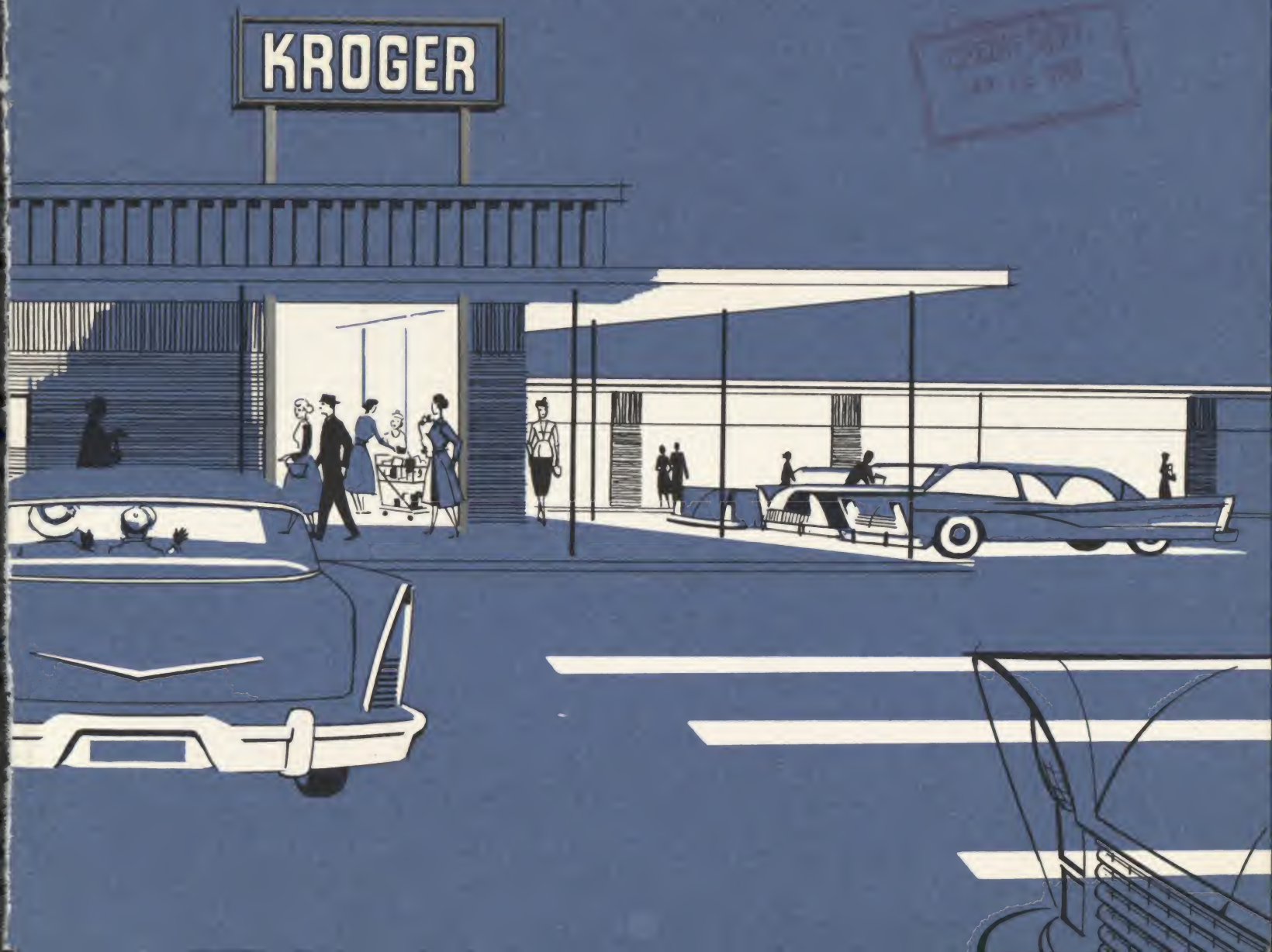


annual report 1956

the Kroger co.



Officers

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CLIFFORD E. ARMSTRONG, *Vice-President*

WILLIAM E. CARTER, *Vice-President*

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The Central Trust Company

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Partner, A. T. Kearney & Co.

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Vice-President

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Shepard Warner Elevator Company

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President, The Eagle-Picher Co.

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President, The First National Bank of Atlanta

DIRECTORS EMERITUS

WALTER A. DRAPER

CHARLES M. ROBERTSON

THE KROGER CO. 35 EAST SEVENTH STREET CINCINNATI 2, OHIO

TRANSFER AGENTS

The Provident Savings Bank and Trust Company,
Cincinnati

Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati

The Chemical Corn Exchange Bank, New York

Highlights

	1956	1955	% increase
SALES	\$1,492,552,233	\$1,219,474,812	22
NET INCOME BEFORE TAXES	\$ 34,515,450	\$ 27,994,575	23
NET INCOME	\$ 17,071,250	\$ 14,368,292	19
NET WORTH	\$ 130,159,964	\$ 119,910,406	9
CAPITAL EXPENDITURES	\$ 41,956,118	\$ 25,801,634	63
STORES	1476	1587	-7
NEW STORES OPENED	149	93	60

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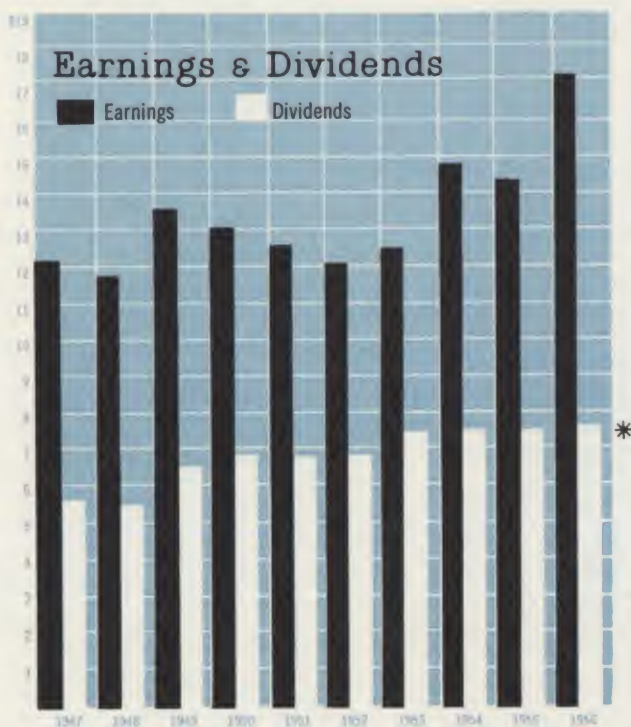
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A Record Year in Review

To Our Shareholders:

The year 1956 was one of outstanding progress for Kroger. Both sales and earnings reached new highs. The organization was strengthened. Our physical facilities were expanded.

Millions of Dollars



* Plus 4% Stock Dividend

Earnings Improve

Net income in 1956 increased 19%, totaling \$17,071,250. This was equal to \$4.41 each on the 3,872,307 shares outstanding at the year end. This compares with 1955 net income of \$3.71 per share on the same number of shares and \$3.88 per share on the 3,705,140 shares then outstanding. Reported 1956 earnings are after a year-end charge of \$1,997,000, equal to \$0.25 per share after taxes, as a result of the company's use of the LIFO inventory method, whereas 1955 net income included a LIFO credit of \$0.15 per share.



Sales Reach New High

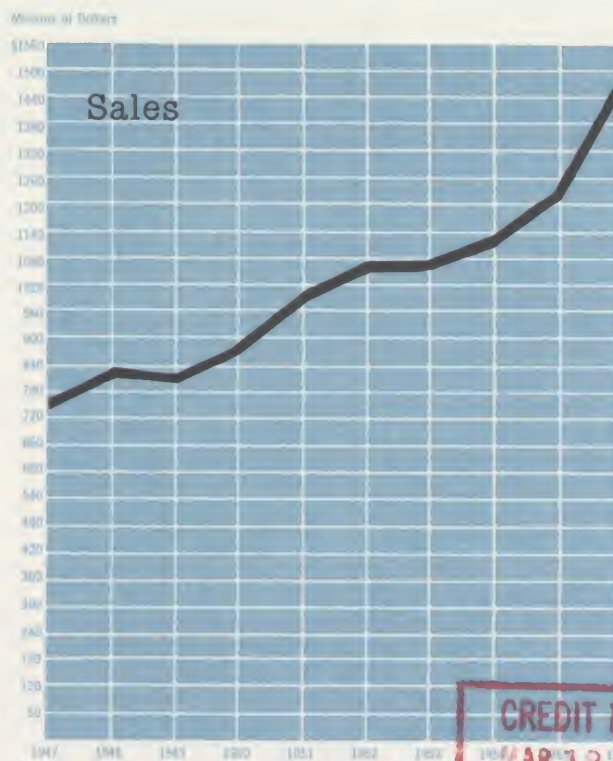
Sales of \$1,492,552,233 exceeded 1955, our highest previous year, by 22%. The gain in 1956 was attributable principally to higher tonnage, since prices of food products increased only about 3%.

Organization Strengthened

Our Kroger organization has been strengthened. The greater responsibilities assumed by our top management team have been recognized in the election of five additional vice-presidents during the year. The president and the eight vice-presidents constitute the administrative committee responsible for the development of company policy and objectives.

Decentralization of operations has created greater responsibilities in each of our twenty-four Kroger divisions, formerly called branches. The branch managers have been appointed divisional vice-presidents. Annual sales volume of these divisions ranges from twenty to one hundred fifty million dollars. Much of the improved results for the year can be attributed to the aggressiveness of the divisional organizations.

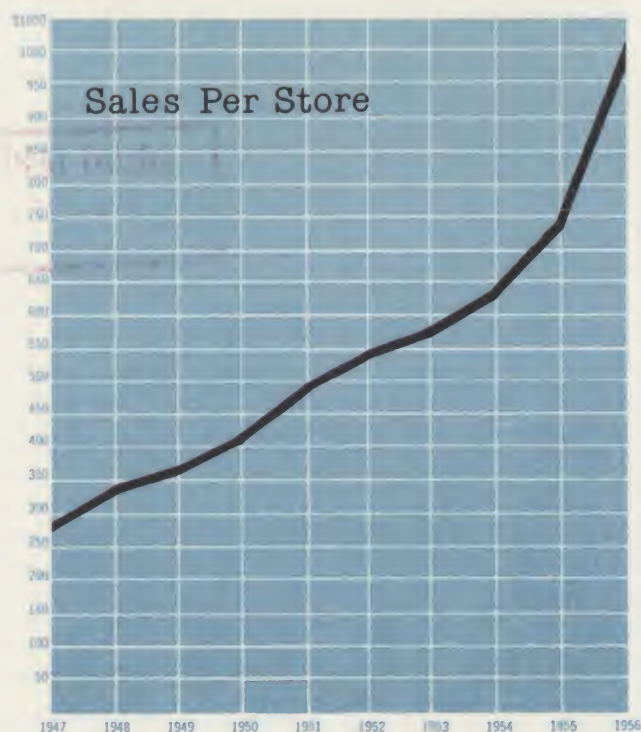
The Henke & Pillot, Krambo and Big Chain corporate structures have been dissolved and merged into Kroger to accomplish optimum efficiencies and economies. Henke & Pillot and Krambo will continue to operate under their own names. This month the integrated Childs and Big Chain organizations are moving into offices in the new Childs Big Chain distribution center in Shreveport. The Childs Big Chain division will operate Big Chain stores in Shreveport and Childs stores elsewhere in Louisiana, Arkansas and East Texas.



Stores and Plant Expanded

The 1956 store program added \$140,540,000 net to annual sales potential. 149 new stores were opened. Construction delays prevented us from achieving the forecast of 160. Major remodels were carried out in 50 stores. Seven stores were acquired through the purchase of Big Chain. We closed 267 small, inefficient and outmoded stores during the year. New and acquired stores in 1956 aggregated 2,396,000 square feet of store space, those closed 1,228,000 square feet, a net increase of 9% in total store area.

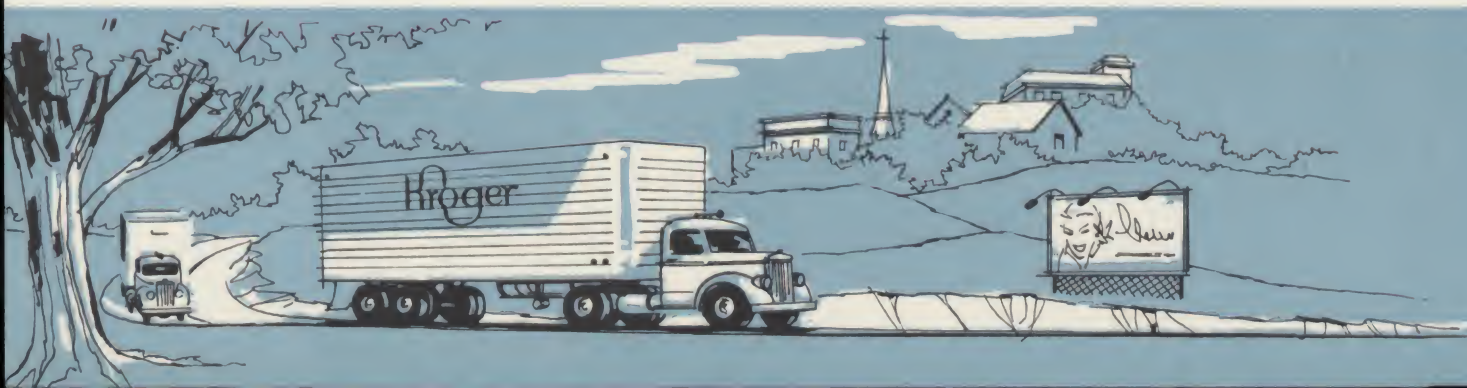
Thousands of Dollars



Approximately 150 new stores will be opened in 1957. The average size of these stores will be 16,000 square feet and the average annual volume is expected to be \$1,800,000. Closing of small, inefficient stores will continue.

Capital outlay for stores and store equipment in 1956 was \$25,699,915.

Distribution centers were opened in Milwaukee, Columbus and Little Rock in 1956. Similar facilities under construction in Shreveport, Grand Rapids and Fort Wayne will be opened in 1957. New distribution centers are planned for Detroit, St. Louis and Indianapolis in 1958.



The rapid rise in sales volume will necessitate the enlargement of at least five of our present distribution centers by 1958. Capital expenditures for distribution centers and related equipment in 1956 were \$9,949,825.

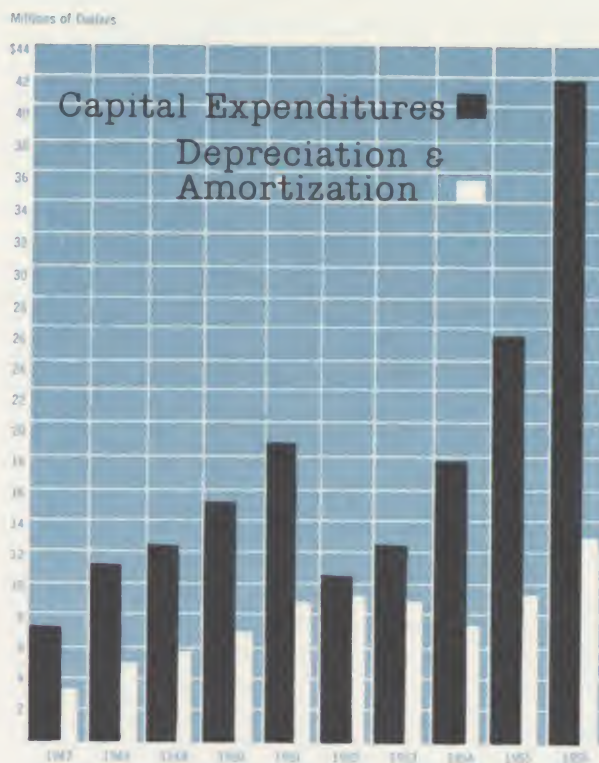
Our new instant coffee plant began operations in January, 1957. Sales of our instant coffee have reached the point where the plant will operate at present capacity. The plant was designed to permit doubling of present capacity through the installation of additional processing equipment. Construction of bread and cake bakeries will be undertaken in Detroit, Indianapolis and Cleveland. Modern

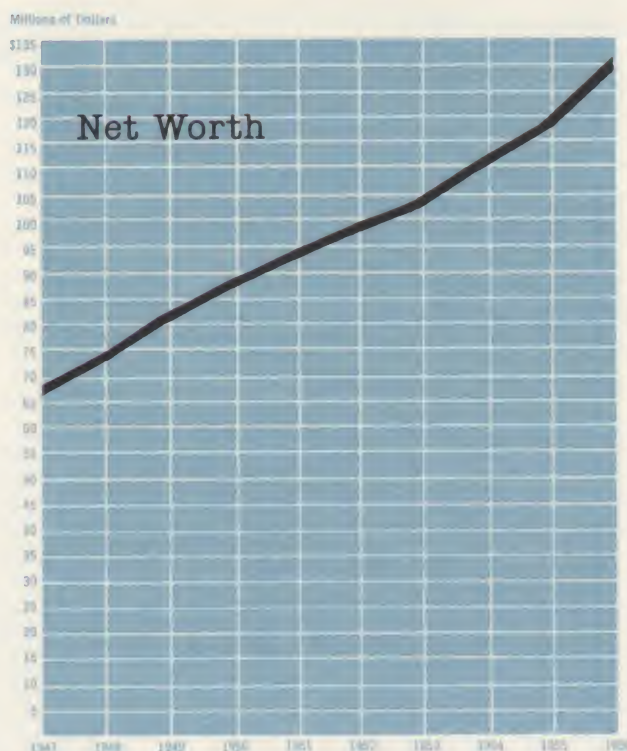
methods of maintaining freshness through refrigeration will enable each of these plants to serve several divisions of the company. Capital expenditures for manufacturing purposes were \$3,308,826.

We expended \$2,569,583 for transportation equipment in 1956. Miscellaneous capital expenditures for all other purposes were \$427,969. Total capital expenditures for the year were \$41,956,118 as compared to \$25,801,634 in 1955. Depreciation and amortization were \$12,698,764, an increase of \$3,361,474 over 1955.

Financial

Cash at the year end was \$41,518,152 compared to \$40,696,076 a year earlier. Reflecting our capital expenditures program, net working capital declined to \$69,968,576 from \$79,180,095 at the end of 1955. Working capital is adequate for our present level of operations. Retail inventories were \$94,367,352, equivalent to 25.5 days' sales as contrasted to 25.8 days' at the end of 1955.





Regular cash dividends totaling \$2.00 per share were paid in 1956. In addition, a 4% stock dividend was distributed in December. This dividend was paid in stock to permit the company to retain a greater share of its earnings in the business to help pay for Kroger's enlarged expansion program.

The common shareholders' equity increased to \$130,124,464, equivalent to \$33.60 per share. At the year end there were 3,872,307 shares outstanding, an increase of 167,167 during the year. Of this increase 148,923 shares were those issued under the 4% stock dividend and 18,244 sold to executives under the stock option plan.

Real Estate Corporation

In 1956 Kroger organized Gromarco Inc., a real estate holding company engaged in the business of leasing stores and distribution centers to Kroger. This provides a means of financing stores when private funds are not available on favorable terms. It should be particularly helpful during the present period of tight money. Property values at the end of the leases will revert to The Kroger Co.

In December, Gromarco arranged the sale of \$13,500,000 of 4½% 25-year mortgage notes. These notes are not obligations of The Kroger Co. It is anticipated that Gromarco will sell additional notes from time to time in the future. To date Kroger has sold properties to Gromarco at our cost of \$6,390,000.



Kroger is People

"Kroger Is People" is the caption of the center spread. This was the ungrammatical but nonetheless descriptive title of a talk made early in the year about the Kroger organization. Today there are 36,807 people engaged in the many functions needed to provide courteous and efficient service to the millions of homemakers in Krogerland. Whether engaged in inspecting and buying produce, processing in our factories, warehousing, transportation, accounting, preparation of food in the store, operating the check-out lane or managing our stores and divisions, the performance of the individual Kroger employee determines our success. That is why Kroger encourages its employees to become partners through the Employees' Savings and Profit Sharing Plan.

Regular employees with the company for more than two years and over 21 years of age have the opportunity to join the plan. Of this group 95% were members at the year end. Fund assets at December 29, 1956 were \$23,427,198 of which \$13,002,715 were deposited by employees, \$8,760,573 contributed by the company and \$1,663,910 earned by the fund. Included in fund assets are 48,224 shares of Kroger stock. Additional shares are being acquired. As the fund continues to grow it will have an ever increasing impact on employee effort and profit consciousness.

Our continuing programs of personnel recruiting, evaluation, and development are producing results. We have been in close touch with students at many high schools and at practically every college within the Kroger territory as well as numerous other colleges. The story of outstanding job opportunities offered by Kroger is being told. Good prospects from these sources have joined the company. Many of these men have advanced to responsible management positions.

An important phase of our program is the periodic evaluation of all management people. This enables the company to take inventory of what we have and what we need. It also permits the employee to know where he stands and what opportunities are ahead. These evaluations are disclosing a number of capable people with growth potential.



In our development program we increase and accelerate those activities which help to build our people. Training programs have been emphasized at all levels. More than half of our stores personnel received formalized on-the-job or classroom instruction during the year. Today many of our stores have annual sales volumes of \$1,000,000 to \$5,000,000. The men who manage such stores must be well qualified executives. To aid in their development we have established a special program to help them become better managers. In addition, store managers are included in the annual group of our people who attend a nine-month graduate course in food distribution at Michigan State University. More than 500 of our store managers are on incentive plans based on the results of their stores.

Other programs provide the education and improvement in management techniques required by the increasing complexity of modern business. A large number of our middle management men have participated in management clinics within the company. Other executives have attended four-week college advanced management courses. Employees interested in self-improvement are attending night classes. A partial subsidy of their tuition is contributed by the company if the selected course will be of value in their work. All of these activities work toward strengthening our organization to meet today's intense competition and the challenge of the future.

Five new vice-presidents were elected in 1956. Thomas T. Oyler, 41, vice-president in charge of personnel, joined Kroger's legal staff in 1948. Named head of the law department in 1950, he was elected Secretary three years later. He will lead our long-range personnel development program.

Clifford E. Armstrong, 49, is vice-president in charge of merchandising, responsible for developing and coordinating the company's overall merchandising program. During his 28 years with Kroger Mr. Armstrong has worked in practically every phase of the retail food business.



Beginning as an accountant in Detroit, he later served in operations and merchandising. He became manager of the Dayton branch and then successively, director of dairy, produce, and grocery merchandising before being named General Manager of Merchandising in 1952.

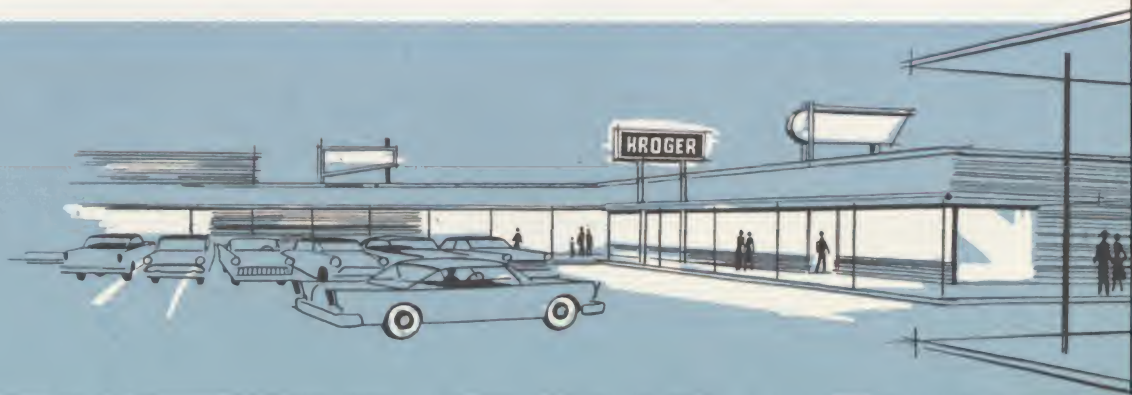
Wilbur R. Korengel, Carl J. Reith and Frank S. Vamos are regional vice-presidents, advising, counseling and working with the divisional vice-presidents. Each of them is a veteran of the retail food business. Mr. Korengel, 48, came with Kroger as a part-time clerk when only thirteen. He served as branch manager at Atlanta, Cincinnati and Chicago before becoming division manager in 1951. Mr. Vamos, 53, joined Kroger as an accountant in Pittsburgh 28 years ago. He held merchandising and sales promotion positions before going to Terre Haute as branch manager in 1947. He was manager of the Cincinnati branch for four years before being named division manager in 1955. Mr. Reith, 43, who also started in the accounting department, served in practically every phase of branch operations in Atlanta, Terre Haute and St. Louis before becoming branch manager in Indianapolis and Cincinnati.

Our Kroger team is demonstrating the benefits of a long-term program of selection, evaluation and development. Our store program is aggressive and effective. The improvement of sales and earnings in 1956 has continued in the current year. Results for the first four weeks are well ahead of last year. We are proud of the organization and its accomplishments. We are confident that progress will continue throughout 1957.

Respectfully submitted,

Joseph B. Hare
President

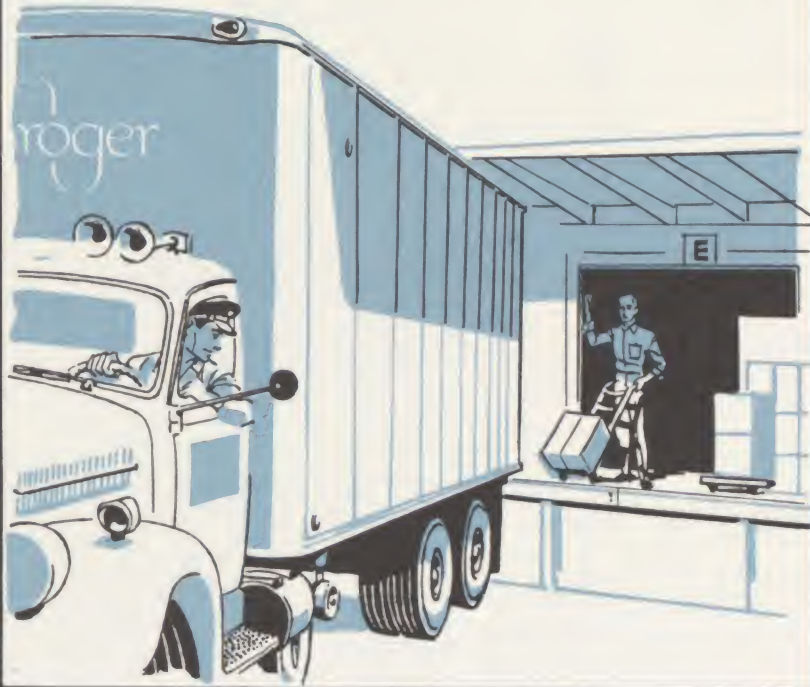
February 8, 1957



Kroger is People



Thirty-seven thousand Kroger people provide courteous and efficient service to fifty-four million consumers from the Great Lakes to the Gulf.



The Kroger Co. Consolidated Balance Sheet

Assets

	December 29, 1956	December 31, 1955
Cash.....	\$ 41,518,152	\$ 40,696,076
Receivables.....	6,363,256	5,785,000
Merchandise inventories (Note 1).....	106,274,996	95,112,775
Store and general supplies.....	6,153,026	6,024,784
Prepaid insurance, rent and taxes.....	<u>1,896,771</u>	<u>1,781,933</u>
TOTAL CURRENT ASSETS.....	162,206,201	149,400,568
Investment in subsidiary insurance company, at cost (Note 2).....	1,776,361	1,776,361
Land.....	3,531,451	3,600,996
Leaseholds and leasehold improvements, net.....	19,771,560	14,315,399
Buildings.....	13,734,306	12,992,207
Machinery and equipment.....	115,916,605	100,329,038
Less allowance for depreciation.....	<u>(57,425,543)</u>	<u>(51,621,052)</u>
NET FIXED ASSETS.....	<u>95,528,379</u>	<u>79,616,588</u>
TOTAL ASSETS	\$259,510,941	\$230,793,517

December 29, 1956 and December 31, 1955

Liabilities

	December 29, 1956	December 31, 1955
Notes payable, banks.....	\$ 6,370,000	\$ —
Accounts payable	45,423,900	36,663,729
Accrued expenses	22,161,611	17,245,595
Provision for federal taxes.....	18,282,114	16,311,149
TOTAL CURRENT LIABILITIES.....	92,237,625	70,220,473
Long-term notes (Note 3).....	34,000,000	34,000,000
Debentures and long-term notes of subsidiaries.....	821,714	2,126,290
Employees' benefit fund.....	2,288,658	2,288,658
Preferred stock of subsidiaries.....	—	2,185,000
Minority interest in subsidiaries.....	2,980	62,690
CAPITAL		
Preferred capital stock, par \$100:		
Outstanding:		
6% Series	27,900	27,900
7% Series	7,600	9,100
Common capital stock (Note 4):		
Authorized: 5,000,000 shares		
Outstanding: 1956, 3,872,307 shares; 1955, 3,705,140 shares.....	42,467,950	34,709,865
Accumulated earnings (Note 3).....	87,656,514	85,163,541
TOTAL CAPITAL	130,159,964	119,910,406
TOTAL LIABILITIES & CAPITAL.....	\$259,510,941	\$230,793,517

Consolidated Statement of Income

Years Ended December 29, 1956 and December 31, 1955

	1956	1955
Sales	\$1,492,552,233	\$1,219,474,812
Cost of sales.....	1,226,608,294	1,011,309,283
Operating and general expenses.....	231,428,489	180,170,954
Total	1,458,036,783	1,191,480,237
Income before federal taxes on income.....	34,515,450	27,994,575
Federal taxes on income.....	17,444,200	13,626,283
Net income	\$ 17,071,250	\$ 14,368,292

Consolidated Statement of Accumulated Earnings

Year Ended December 29, 1956

Accumulated earnings—December 31, 1955.....		\$ 85,163,541
Net income for 1956.....		17,071,250
		<u>102,234,791</u>
Cash dividends	\$7,429,973	
Transferred to common capital stock on account of 4% stock dividend.....	7,148,304	14,578,277
Accumulated earnings—December 29, 1956.....		<u>\$ 87,656,514</u>



Notes to Financial Statements

1. Merchandise inventories are valued in part on the LIFO basis and in part at the lower of cost or market.
2. The investment in Selective Insurance Company, formerly called Manufacturers & Merchants Indemnity Company, an insurance company licensed under the laws of the State of Ohio, represents the entire voting preferred stock and 33⅓% of the common capital stock of that company, and is carried on the books at cost. At December 31, 1956, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to \$1,422,753. Total assets of the insurance company so determined amounted to \$7,757,607 consisting principally of cash, U. S. Government securities and other marketable securities aggregating \$7,253,278. Operations of the insurance company for the year 1956 resulted in a decrease in surplus of \$129,866.
3. Notes for \$14,000,000 bearing interest at 3.1% mature October 1, 1971. Annual prepayments of \$700,000 without premium are required beginning October 1, 1961. Any of the notes may be prepaid at the option of the company at premiums provided in the loan agreement. Payments of cash dividends are limited to earnings subsequent to December 29, 1956, plus \$54,348,129 of accumulated earnings existing on that date. Notes for \$20,000,000 were issued under a revolving credit agreement dated June 1, 1955. Individual notes mature in 90 days but are renewable up to June 1, 1958 at 3% interest. They are convertible on that date into 5-year notes bearing interest at a rate of ⅛ of 1% above the then prime rate, but not to be less than 3% nor more than 3.25%.
4. On March 7, 1956 the no par value common stock was changed to \$1.00 par value.

Options to officers and executives to purchase 166,011 shares of Kroger common stock were in force at January 1, 1956. The 1956 Option Plan, approved by stockholders, made available for options 200,000 shares. Option transactions during the year may be summarized as follows: granted, 143,530 shares; exercised, 18,244 shares at \$31.01 to \$48.50 per share; expired or cancelled, 4,720 shares. Options to purchase 297,162 shares were in force at December 29, 1956. Shares available for options at the beginning and close of the year were 2,027 shares and 63,831 shares, respectively. Options for 34,713 shares were exercisable at December 29, 1956.

Report of Certified Public Accountants

LYBRAND, ROSS BROS. & MONTGOMERY CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 29, 1956, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 29, 1956, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Cincinnati, Ohio
February 8, 1957

Lybrand, Ross Bros. & Montgomery

Ten Years of Progress.....

	1956	1955	1954	1953
SALES.....	\$1,492,552,233	\$1,219,474,812	\$1,108,694,168	\$1,058,608,651
NET INCOME BEFORE TAXES...	\$ 34,515,450	\$ 27,994,575	\$ 27,326,912	\$ 29,309,664
NET INCOME.....	\$ 17,071,250	\$ 14,368,292	\$ 14,912,912	\$ 12,528,664
NET INCOME PER SHARE.....	\$4.41	\$3.88	\$4.04	\$3.40
DIVIDENDS PER SHARE.....	\$2.00*	\$2.00	\$2.00	\$2.00
CASH.....	\$ 41,518,152	\$ 40,696,076	\$ 34,627,962	\$ 41,792,719
MERCHANDISE INVENTORIES...	\$ 106,274,996	\$ 95,112,775	\$ 84,667,841	\$ 81,196,446
NET WORKING CAPITAL.....	\$ 69,968,576	\$ 79,180,095	\$ 67,522,366	\$ 68,707,575
NET FIXED ASSETS.....	\$ 95,528,379	\$ 79,616,588	\$ 59,575,135	\$ 50,451,043
ACCUMULATED EARNINGS.....	\$ 87,656,514	\$ 85,163,541	\$ 78,200,902	\$ 70,670,362
NET WORTH.....	\$ 130,159,964	\$ 119,910,406	\$ 112,585,204	\$ 104,646,321
NET WORTH PER SHARE.....	\$33.60	\$32.35	\$30.47	\$28.41
SHARES OUTSTANDING.....	3,872,307	3,705,140	3,693,839	3,681,279
NUMBER OF SHAREHOLDERS...	26,621	26,596	25,501	25,914
NUMBER OF EMPLOYEES.....	36,807	33,705	30,320	29,105
NUMBER OF STORES.....	1,476	1,587	1,678	1,810
TOTAL STORE AREA (Square Feet)	13,918,774	12,750,326	11,318,339	11,059,602

*Plus 4% Stock Dividend



Kroger®

LIVE BETTER FOR LESS

1952	1951	1950	1949	1948	1947
\$1,051,849,935	\$997,086,223	\$861,242,642	\$807,739,440	\$825,668,323	\$754,282,085
\$ 27,935,387	\$ 21,710,540	\$ 24,574,542	\$ 22,926,564	\$ 19,740,720	\$ 20,647,976
\$ 12,110,087	\$ 12,657,940	\$ 13,087,542	\$ 13,636,564	\$ 11,811,120	\$ 12,110,976
\$3.30	\$3.45	\$3.56	\$7.42	\$6.43	\$6.59
\$1.90	\$1.85	\$1.875	\$3.50	\$3.00	\$3.00
\$ 40,078,625	\$ 30,128,288	\$ 25,869,452	\$ 20,300,337	\$ 19,745,290	\$ 20,611,352
\$ 77,143,349	\$ 79,170,757	\$ 72,223,385	\$ 64,380,938	\$ 63,956,574	\$ 64,710,122
\$ 65,884,745	\$ 61,528,850	\$ 49,918,283	\$ 51,406,979	\$ 50,295,776	\$ 50,434,510
\$ 47,843,817	\$ 47,087,347	\$ 38,829,770	\$ 31,018,937	\$ 25,104,906	\$ 18,618,382
\$ 65,501,630	\$ 60,373,344	\$ 54,513,661	\$ 48,316,510	\$ 41,110,925	\$ 34,807,927
\$ 99,216,265	\$ 94,090,179	\$ 88,230,496	\$ 82,033,545	\$ 74,828,460	\$ 68,564,962
\$27.00	\$25.60	\$24.01	\$44.64	\$40.72	\$37.29
3,673,178	3,673,178	3,673,178	1,836,589	1,836,589	1,836,589
26,088	26,254	26,144	27,041	27,436	27,421
28,396	26,864	25,775	26,161	24,969	23,953
1,891	1,978	2,054	2,190	2,349	2,516
10,810,237	10,613,701	10,217,453	9,981,519	8,844,377	8,583,464



Kroger[®]

live better for less

